Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

LIMITED OFFICIAL USE

PAGE 01 MOSCOW 07195 01 OF 02 231716Z
ACTION EUR-03

INFO OCT-01 ISO-00 ONY-00 /004 W
----------231725Z 008439 /41
P 231530Z MAY 77
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC PRIORITY 7750

LIMITED OFFICIAL USE SECTION 1 OF 2 MOSCOW 7195

NO DISTRIBUTION OUTSIDE EUR/SOV - 3 COPIES ONLY

FOR GARRISON FROM MATLOCK

E.O. 11652: GDS
TAGS: OGEN
SUBJ: OFFICIAL INFORMAL

1. PLEASE PASS FOLLOWING DRAFT TO AMBASSADOR FOR HIS SPEECH TO MID-AMERICA COMMITTEE IN CHICAGO.

2. TEXT: (INTRODUCTORY REMARKS SUCH AS ANECDOTE, REFERENCE TO DR. KISSINGER'S APPEARANCE IN SAME FORUM, ETC.) TODAY I WOULD LIKE TO ADDRESS MYSELF TO THE SUBJECT OF U.S.-SOVIET COMMERCIAL RELATIONS IN THE FRAMEWORK OF OVERALL AMERICAN FOREIGN POLICY INTERESTS. THIS IS A BROAD SUBJECT, AND OUR TIME IS LIMITED, OS I WILL CONFINE MY REMARKS TO SOME SELECTIVE OBSERVATIONS, KNOWING THAT I CAN COUNT ON THIS AUDIENCE TO POSE QUESTIONS ON THOSE ASPECTS OF THE GREATEST CONCERN TO YOU.

3. AT THE OUTSET LET ME SAY THAT WE APPROACH OUR TRADE RELATIONSHIP WITH THE SOVIET UNION WITH TWO BASIC CONSIDERATIONS IN MIND:

4. FIRST, HOW CAN THIS TRADE MOST EFFECTIVELY CONTRIBUTE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MOSCOW 07195 01 OF 02 231716Z

TO OUR OWN ECONOMIC WELL-BEING: PROFITS FOR BUSINESS AND AGRICULTURE JOBS FOR LABOR, ASSURED ACCESS TO RAW MATERIALS AND STRENGTHENING THE DOLLAR? IN SHORT, HOW CAN WE DERIVE THE CLASSIC BENEFITS OF INTERNATIONAL TRADE?

5. SECOND, CAN TRADE ALSO PROMOTE - OR IMPAIR -OUR

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

BROADER RELATIONSHIP WITH THE SOVIET UNION? WE ARE
DEALING HERE WITH A SUPER POWER WHOSE DOMESTIC POLITICAL
SYSTEM, IDEOLOGY AND FOREIGN POLICY INTERESTS ARE RADICALLY
DIFFERENT FROM OUR OWN AND WHOSE MILITARY POWER CONTINUES
TO BE THE CHIEF PERIL TO OUR NATIONAL SECURITY AND THAT OF
OUR CLOSEST ALLIES. WHAT CAN WE FAIRLY EXPECT FROM TRADE IN
THESE DIFFICULT CIRCUMSTANCES?

6. ON THE FIRST OF THESE CONSIDERATIONS, MY VIEW IS THAT
TRADE WITH THE SOVIET UNION IN NON-STRATEGIC GOODS, IF
CAREFULLY MONITORED AS AT PRESENT TO AVOID POTENTIAL MARKET
DISRUPTIONS AND IF GRANDIOSE SPECULATION ABOUT FURTHER
EXPONENTIAL GROWTH OF TRADE IS AVOIDED, CAN CONTINUE TO MAKE
A SOLID CONTRIBUTION TO OUR OWN ECONOMIC WELFARE.

7. ON THE SECOND AND MORE COMPLEX QUESTION OF WHERE TRADE
FITS IN THE BIGGER PICTURE, MY ANSWER IS ALSO BASICALLY A
POSITIVE ONE. TRADE WITH THE WEST, STILL LESS WITH THE
UNITED STATES ALONE, CANNOT BE EXPECTED IN ITSELF TO
LEAD TO FUNDAMENTAL CHANGES IN THE SOVIET SYSTEM OR TO PUT
LIMITS ON THE SOVIET PURSUIT OF FOREING POLICY OBJECTIVES
ALIEN OR HOSTILE TO OUR OWN. FOR THIS THE WHOLE PANOPLY
OF FOREIGN POLICY IS NOT INVARIABLY SUFFICIENT. BUT TRADE
POLICY CAN, IF UTILIZED WITH DISCRETION, CREATE NEW MUTAL
INTERESTS WHICH CONDUCE TO GREATER INTERNATIONAL HARMY. IT
CAN PROVIDE A GROWING ACQUAINTANCE BY THE SOVIET UNION WITH THE
REALITY OF LIFE IN ADVANCED WESTERN COUNTRIES, A REALITY BEARING
LITTLE RESEMBLANCE TO THE FANTASIES OF COMMUNIST PROPAGANDA.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

8. AMONG THE THINGS WHICH MY PERSONAL EXPERIENCE IN THE USSR
HAS TAUGHT ME IS THAT CHANGE THERE COMES WITH GLACIAL SPEED,
PARTICULARLY WHEN THE MODIFICATIONS MAY BEAR ON THE FUNDAMENTAL
INSTITUTIONAL STRUCUTRE OF SOVIET SOCIETY. BUT CHANGE DOES
OCCUR. ONE MAJOR MANIFESTATION OF SUCH IS THE SHIFT OF
SOVIET EMPHASIS TOWARDS TRADE WITH THE ADVANCED WESTERN
INDUSTRIAL COUNTRIES, INCLUDING THE UNITED STATES. AS
RECENTLY AS 1969, 60 PERCENT OF SOVIET IMPORTS CAME FROM
EASTERN EUROPE AND LESS THAN ONE/QUARTER FROM INDUSTRIALIZED
WESTERN COUNTRIES. IN 1975 THESE FIGURES WERE 42.4 AND 29
PERCENT, RESPECTIVELY. I POINT THIS OUT TO UNDERSCORE
THAT THEPRESENT SOVIET LEADERSHIP HAS RECOGNIZED THAT ACCESS
TO THE ADVANCED TECHNOLOGY AVAILABLE ONLY IN THE WEST IS
A NECESSARY CONDITION FOR THE REVITALIZATION OF THE SOVIET
ECONOMIC SYSTEM. WHETHER EVEN WESTERN TECHNOLOGY IS SUFFICIENT
TO STREAMLINE THE SOVIET ECONOMY IS, OF COURSE, ANOTHER
QUESTION. I AM BY NO MEANS CONVINCED THAT IT CAN. FOR OUR
OWN PURPOSES, HOWEVER, IT IS ENOUGH TO NOTE THAT THE SOVIET
LEADERS, IN THEIR OWN INTEREST OF SATISFYING THE GRADUALLY

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

RISING EXPECTATIONS OF SOVIET CITIZENS FOR A
BETTER LIFE, ARE STRONGLY COMMITTED TO TRADE WITH THE WEST.

9. A CLOSELY RELATED FACTOR IS THE IMPACT OF THE "OIL
REVOLUTION" WHICH FOLLOWDD THE YOM KIPPUR WAR. THE USSR
IS CURRENTLY THE WORLD'S FORMOST PRODUCER OF CRUDE OIL, AND
HAS BEEN A MAIN, THOUGH INDIRECT, BENEFICIARY OF OPEC. FOR
ONE THING, THERE HAS BEEN A DRAMATIC CHANGE IN THE TERMS OF
TRADE BETWEEN THE USSR AND OIL-POOR EASTERN EUROPE, WHERE A
SOVIET DEFICIT OF NEARLY ONE BILLION DOLLARS IN 1973 WAS TURNED
INTO A SURPLUS OF NEARLY THE SAME AMOUNT IN 1975, LARGELY DUE
TO HIGHER OIL PROCES. EQUALLY IMPORTANT, THE USSR'S
SURPLUS OIL DIRECTED TO THE WEST NOW OBTAINS "OPEC PRICES"
AND HELPS TO FINANCE SOVIET ACQUISITION OF WESTERN TECHNOLOGY.
I NEED ONLY MENTION THAT AS THE WORLD'S SECOND BIGGEST
PRODUCER OF GOLD, THE SOVIET UNION HAS BENEFITTED FROM RISING
GOLD PRICES AS AN ADDITIONAL MEANS OF FINANCING COMMODITY
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MOSCOW 07195 01 OF 02 231716Z

IMPORTS.

10. THE SOVIET UNION IS FORTUNATE TO HAVE FUEL, NATURAL
RESOURCES AND GOLD IN LARGE SUPPLY, FOR ITS MANUFACTURED
GOODS STILL ARE NOT GENERALLY COMPETITIVE ON WESTERN
MARKETS. THIS IS NO DOUBT A SOURCE OF DISSATISFACTION TO
SOVIET LEADERS, WHO LIKE TO REPRESENT THEIR COUNTRY AS
TECHNOLOGICALLY HIGHLY ADVANCED. IT IS NOTEWORTHY THAT
IN 1975 FUELS ALONE REPRESENTED OVER HALF OF THE TOTAL VALUE
OF SOVIET EXPORTS TO THE WEST, WITH OTHER RAW MATERIALS
ACCOUNTING FOR AN ADDITIONAL QUARTER. ONLY TEN PERCENT OF THESE
EXPORTS WERE MANUFACTURED GOODS OF ALL TYPES. NO
CHANGE IN THIS PICTURE SEEMS CLOSE AT HAND.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MOSCOW 07195 02 OF 02 231726Z
ACTION EUR-03

INFO OCT-01 ISO-00 ONY-00 /004 W
---------- 231729Z 008598 /41
P 231530Z MAY 77
FM AMEMBASSY MOSCOW

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

TO SECSTATE WASHDC PRIORITY 7751

LIMITED OFFICIAL USE SECTION 2 OF 2 MOSCOW 7195

NO DISTRIBUTION OUTSIDE EUR/SOV -3 COPIES ONLY

FOR GARRISON FROM MATLOCK

E.O. 11652: GDS

11. THUS THE SOVIETS CAN ONLY PARTIALLY PAY FOR THEIR PURCHASE FROM THE WEST. THE REMAINDER THEY AND THEIR EAST EUROPEAN NEIGHBORS MUST OBTAIN ON CREDIT. THE WILLINGNESS TO COUNTENANCE SUCH DEBTS IS PART OF THE OVERALL CHANGE IN SOVIET THINKING WICH HAS LED TO GROWING TRADE WITH THE WEST. THERE IS REASON TO BELIEVE, HOWEVER, THAT THE SOVIET UNION - FACED WITH A GROWING DEBT-SERVICE RATIO - WILL TIGHTEN ITS OWN BELT AND INCREASINGLY DEMAND FROM WESTERN EXPORTERS THE MOST ADVANTAGEOUS FINANCIAL PACKAGE POSSIBLE.

12. IN SUM, WE NOW HAVE A SOVIET UNION COMMITTED TO TRADE WITH THE WEST, RELYING FOR TRADING ASSETS ON HIGHER PRICES FOR OIL, GAS, GOLD, OTHER RAW MATERIALS AND SUCH INVISIBLES AS TRANSPORTATION, INSURANCE AND TOURISM,BUT FORCED TO UTILIZE WESTERN CREDIT TO DEVELOP THE NATURAL RESOURCES THAT OFFER THE POTENTIAL MEANS OF EVENTUAL REPAYMENT.

13. WHAT DOES THIS SITUATION HOLD FORTH FOR AMERICAN BUSINESS? HOW DOES IT FIT INTO THE MOLD OF U.S.-SOVIET RELATIONS, ON WHICH THE FUTURE OF THE WHLOLE WORLD WILL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

CONTINUE TO DEPEND IN THE LAST QUARTER OF THE PRESENT CENTURE?

14. FIRST OF ALL, IN COMMERCIAL TERMS, THE UNITED STATES HAS GREATLY EXPANDED ITS EXPORTS TO THE USSR IN RECENT YEARS. THANKS IN LARGE PART TO ONE BAD SOVIET HARVEST, OUR EXPORTS TRIPLED BETWEEN 1974 AND 1975 AND INCREASED ANOTHER THIRTY PERCENT TO A TOTAL OF 2.3 BILLION DOLLARS IN 1976. WE WERE THUS SECOND ONLY TO WEST GERMANY AMONG WESTERN EXPORTERS TO THE USSR. IN ADDITION TO THE PROFITS AND THE JOBS WHICH THESE EXPORTS MADE POSSIBLE, OUR TWO BILLIONDOLLAR TRADE SURPLUS WITH THE USSR LAST YEAR HELPED TO REDUCE OUR GLOBAL DEFICIT AND PREVENTED FURTHER DAMAGE TO THE PURCHASING POWER OF THE DOLLAR. MOREOVER, IMMENSE SOVIET SUPPLIES OF NATURAL GAS COULD POTENTIALLY BE A SMALL PART OF THE FUTURE U.S. ENERGY PICTURE.

15. NEVERTHELESS, AS MOST OF YOU ARE PROBABLY WELL AWARE,

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

THERE ARE MANY UNRESOLVED PROBLEMS IN TRADE WITH THE USSR, AND
IN SOME OF THEM BUSINESS INTERRELATES WITH POLITICAL CONSIDERATIONS
OF A BROADER NATURE. SPECIFICALLY, THE TRADE ACT OF 1974 AND
THE EXPORT-IMPORT BANK EXTENSION CT SET FORTH CONDTIONS
WHICH HAVE PREVENTED U.S. GOVERNMENT FINANCING OR GUARANTEE OF
EXPORTS TO THE SOVIET UNION AND SOME COUNTRIES OF EASTERN
EUROPE. THE SAME CONDITIONS PREVENT US FROM GIVING THEIR
EXPORTS MOST FAVORED NATION TREATMENT, A RESTRICTION WHICH
MAY HAVE LITTLE CURRENT ECONOMIC IMPACT BUT WHICH IS
STRONGLY RESENTED BY THE USSR AS DISCRIMINATORY. SINCE
ENACTMENT OF THE LEGISLATION IN QUESTION, OUR TRADE HAS
FLOURISHED, BUT SOVIET LEADERS TELL US WITH SOME BASIS OF
PROBABILITY THAT WE HAVE LOST CONSIDERABLE BUSINESS TO OTHER
WESTERN NATIONS AND WILL LOSE MORE IN THE FUTURE. ON
THE OTHER HAND, THE OBJECTIVES OF EXPANDED EMIGRATION FROM
THE USSR SOUGHT IN THE LEGISLATION HAVE NOT BEEN SERVED,
FOR THE EMIGRATION FIGURES HAVE DIMINISHED.

16. WHERE DO WE GO FROM HERE? AT THE MOMENT, UNLESS THE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MOSCOW 07195 02 OF 02 231726Z

SOVIET UNION HAS ANOTHER HARVEST DISASTER AKIN TO 1975, OUR
IMMEDIATE PROSPECTS ARE FOR SOME REDUCTION IN THE LEVEL OF
U.S. EXPORTS BUT A CONTINUED ROLE FOR U.S. INDUSTRIAL GOODS.
THE HORIZONS ARE BY NO MEANS UNLIMITED, CHECKED AS THEY ARE
BY FINITE SOVIET ABILITY TO PAY AND AN ENVIRONMENT WHERE
ADVANTAGEOUS CREDIT TERMS OFFERED BY OTHER WESTERN COUNTRIES -
OR WILLINGNESS TO ACCEPT MANUFACTURED GOODS IN KIND AS
PAYMENT - WORK AGAINST AMERICAN SELLERS.

18. IF U.S.-SOVIET RELATIONS IMPROVE, IF THERE IS PROGRESS
IN CRITICAL ARMS CONTROL AND DISARMAMENT ISSUES, IF THE SOVIET
UNION SHOWS A MORE FLEXIBLE ATTITUDE ON MATTERS OF BASIC
HUMAN RIGHTS, IT WOULD CLEARLY BE IN OUR NATIONAL INTEREST AS
WELL AS THEIRS TO AMEND CURRENT LEGISLATION SO AS TO PUT
INTO EFFECT THE TRADE AGREEMENT WE AND THE SOVIETS SIGNED BACK
IN 1972. ONCE THIS IS DONE, OPENING THE WAY FOR GOVERNMENT-
BACKED CREDITS AND MOST FAVORED NATION TREATMENT FOR A THREE-
YEAR PERIOD, WE MIGHT HOPE TO SEE TRADE WORK QUIETLY TO
BROADER ADVANTAGE. NOT ONLY WOULD OUR COMMERCIAL INTERESTS
OBVIOUSLY STAND TO BENEFIT FROM SUCH A DEVELOPMENT, BUT THE
IMPROVED RELATIONSHIP COULD SPILL OVER UNOBTRUSIVELY INTO
OTHER AREAS, EXERTING SUBTLE PRESSURE ON SOVIET LEADERS NOT
TO RISK THIS ADVANTAGE BY HARSH STRICTURES AT HOME OR PURSUIT
OF ADVENTURE ABROAD. IT WILL ALWAYS, HOWEVER, BE NECESSARY
TO BEAR IN MIND THAT TRADE IS BASICALLY TO BE JUSTIFIED IN ITS
OWN RIGHT. WHAT IT CAN DO FOR THE FUNADMENTAL ISSUES BETWEEN
US AND THE SOVIET UNION IS STRICTLY LIMITED. AS LONG AS WE DO
NOT OVERBURDEN IT, TRADE CAN BEST WORK GRADUALLY TO WEAR DOWN
THE VERY HEAVY STONES WHICH STILL LIE IN OUR PATH. END DRAFT

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

TEXT.
MATLOCK

LIMITED OFFICIAL USE

NNN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Sent Date: 23-May-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MOSCOW07195
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770183-0601
Format: TEL
From: MOSCOW
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770528/aaaaaygu.tel
Line Count: 280
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a0b8bf8b-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2407658
Secure: OPEN
Status: NATIVE
Subject: OFFICIAL INFORMAL
TAGS: OGEN
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/a0b8bf8b-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009